A neighborhood,
self-service
discount department store
means . . .

Fashion
Convenience
Value

COVER:

Fashion, convenience, value: the three operating principles which have formed the foundations of our growth.
Their continued validity in the days ahead make them the theme of this year's annual report.

Zayre Annual Report 1973

financial highlights

	1973	1972
	(In Thousands)	
Net Sales	**$1,003,422**	$939,710
Pre-tax Income	**16,739**	18,919
Net Income	**9,112**	10,550
Working Capital	**126,974**	116,384
Shareholders' Equity	**108,706**	99,539
Net Income per Common Share:		
Primary	**$1.84**	$2.15
Fully Diluted	**$1.77**	$2.05

Contents

Annual Meeting

The 1974 annual meeting will be held at 11:00 A.M. on Tuesday, June 4, 1974, in the Forum Room, State Street Bank and Trust Company, 225 Franklin Street, Boston, Massachusetts.

letter to shareholders: march 26, 1974

1973 was a year of marked change in economic conditions, and a year of great upheaval for discount retailing. In light of those events, we consider your Company's results, although short of our original goal, to be reasonably satisfactory.

Sales passed the billion-dollar mark just 17 years after the establishment of the first Zayre store in 1956, and totaled $1,003,422,000, a gain of 6.8% over 1972. As noted in the Financial and Operating Review, after adjustment for gasoline sales, the gain was 8.8%.

Few indeed are the firms that reach this mark. And, although large size is not an objective in itself, it does enhance the balance and stability of a company's operations.

Net income amounted to $9,112,000, compared to $10,550,000 last year. Primary net income per common share was $1.84, compared to $2.15 in 1972.

Shareholders' equity rose to $108,706,000, from $99,539,000 in 1972, and on a per share basis reached $22.30, compared with $20.51 last year. Working capital, the base of the Company's financial strength, now stands at $126,974,000, up from $116,384,000 last year.

Although sales exceeded one billion dollars in 1973, they fell short of our original plan. By midyear, a series of domestic and international events caused a sharp fall in consumer confidence with a resultant downturn in the tone of business in the second half of the year.

Among those events was the escalating rate of inflation, especially in food necessities, which eroded the discretionary spending of most families. The energy crisis raised the cost of other necessities and further heightened consumer fears of an economic slowdown. Anticipating a sales downturn, we took vigorous steps to pare inventories which resulted in some out-of-stock positions, especially in the third quarter.

The sharp rise in short-term money rates during 1973 was a principal factor in the increase of $2,700,000 in the corporation's annual interest expense. It's interesting to note that this amount exceeds the decline in 1973's pre-tax earnings.

These factors might have exerted an even greater downward pressure on earnings had we not responded promptly. Expenses were trimmed to match reduced sales expectations. Merchandise assortments and promotional plans were reviewed and strengthened so that during the crucial holiday selling season we surpassed 1972's record sales. As a result, our relative performance in the fourth quarter was much better than in the third.

Gross profit results for the year were enhanced by the success of our plan to improve the budgeting and control of merchandise margins in connection with our on-going sales promotion programs, as well as by a further reduction in inventory shrinkage expense. With respect to the latter, this is now the fourth consecutive year we have achieved positive results—thanks to the efforts of our entire organization which have been focused on this major cost of doing business.

Our performance is notable in a year of upheaval for discounting, a year when many firms fell by the wayside. Several operating principles have helped us in this period.

First, the growth of competition has made our business considerably more promotional than it once was. Having anticipated this development, we have long followed the policy of clustering our stores in the markets we serve. Clustering provides a large enough sales volume in most markets to make sustained advertising economically feasible.

Second, strong management in both merchandising and store operations has permitted us to maintain store volumes even though competitive store space has greatly increased over the last few years.

And finally, our strong financial base has been a major advantage in the industry's currently disturbed times.

Over the years, your Company has carefully and consistently provided in advance for its long-term capital requirements through the growth of net worth and long-term debt with properly staged maturities. This, in turn, has meant that adequate short-term bank lines are fully available to accommodate seasonal merchandise needs, and can be entirely cleared at year end.

These practices have won the support of our lenders as well as our merchandise suppliers. In 1973, as we have every year, we retired all short-term merchandise bank borrowings and ended the year with a cash position of $36,589,000.

Looking ahead, the long-run potential for retailing is very promising. The Seventies will see an unprecedented growth in the number of new family formations, as well as large gains in consumer disposable income. The greatest portion of this growth will occur within the suburban middle-income groups which constitute the Company's primary market.

Also, in the long run, the so-called discount shakeout is bound to be constructive. Aggregate discount store square footage will be growing at a more modest rate, while the population of the major metropolitan markets continues to expand.

For the near term, we're sanguine, but cautious. Like all Americans, we are having to adjust to some highly unusual conditions: a continued energy shortage, inflation, and an economic slowdown.

Until the economy and consumer spending begin to move forward again, retail earnings are bound to be under pressure, just as they were in the second half of 1973. Accordingly, we will continue to control our expenses tightly, hold our capital spending under firm rein, and expect our stores and our merchants to be exceptionally aggressive in achieving their share of consumer spending.

We assume that the energy shortage will be with us for some time. Precisely how this will influence consumer shopping habits is not yet entirely clear. It seems likely that people will want to shop nearer to home and will buy more on each trip. Such a trend might well benefit Zayre because most of our stores are in neighborhood shopping centers, usually next to food supermarkets serving the same families.

As for inflation and an economic slowdown, Zayre has a strong advantage: more people are looking for value, and value is one of the fundamentals of our merchandising approach. Our current advertising theme reiterates the point: "Compare. You can't do better than Zayre!" We expect that budgetary pressures induced by inflation will encourage many people to shop in our stores who have normally bypassed the discounters. We shall welcome them.

In this type of environment, our basic posture is sound indeed. We are neighborhood, convenience, self-service, general merchandise, discount department stores, whose lines are broad enough to constitute one-stop shopping centers. We will continue to meet the merchandise needs of the broad middle-income group of consumers, and keep pace with their changes in taste.

This hardly means that we shall continue doing business in the same old way. On the contrary, we are embarking on a significant new phase of our development.

When discounting first burst on the American retail scene, the initial emphasis was on building new stores and capturing markets. Today, discounting has carved out a major share of overall general merchandise retailing, and we at Zayre expect to continue as one of the major forces in the industry.

To that end, our emphasis shifts increasingly to making our existing franchises even stronger than they have been.

Our management teams are implementing several important merchandising programs geared to increasing store productivity and store sales. These programs are showing much promise.

Some involve improved replenishment and better in-stock positions on basics. Others relate to revised and strengthened merchandise assortments. Still others are geared to enhancing gross profit through generating an improved merchandise mix. Further, the major traffic aisles of our stores are becoming more exciting "midways," because they are the focus of the high velocity, unusual values we develop. Other programs, more experimental in nature, concentrate on selected stores through a major upgrading of their store standards, personnel coverage and advertising, and are keyed to a correspondingly major upgrading of their volumes.

Our new emphasis is evident also in our store opening policy. Last year we opened 20 new stores, as planned, and acquired three. This year we expect to open about eight, aside from any additional units that we may acquire. This means that more of our capital budget—now in line with our current level of depreciation—will be devoted to our existing stores.

We can summarize our program by noting that there is significant earnings leverage available to Zayre through the improvement of productivity in our existing stores. We mean to exert that leverage.

Our confidence in the future is based on three factors. First, the positive outlook for overall general merchandising in the Seventies; second, the increasingly positive outlook for discount retailing now that the bulk of the shakeout appears to be behind us; and third, our organization's ability to increase our existing stores' productivity.

Recently, two outstanding men have joined our Board, and we take this opportunity to welcome them. Mr. Robert Shapiro is executive vice-president of Wertheim & Co., Inc., investment bankers, and has known our company for many years while associated with Lehman Brothers. Mr. Albert Kronick is a career retailer and consultant, and was formerly chairman of the board and chief executive officer of the Abraham & Straus division of Federated Department Stores.

Retailing, of course, is a people's business, and people are our most valuable asset. Zayre owes its accomplishments to the loyalty, energy and efforts of our 28,000 employees, to the high competence of our thousands of suppliers, and to the continued patronage of our millions of customers.

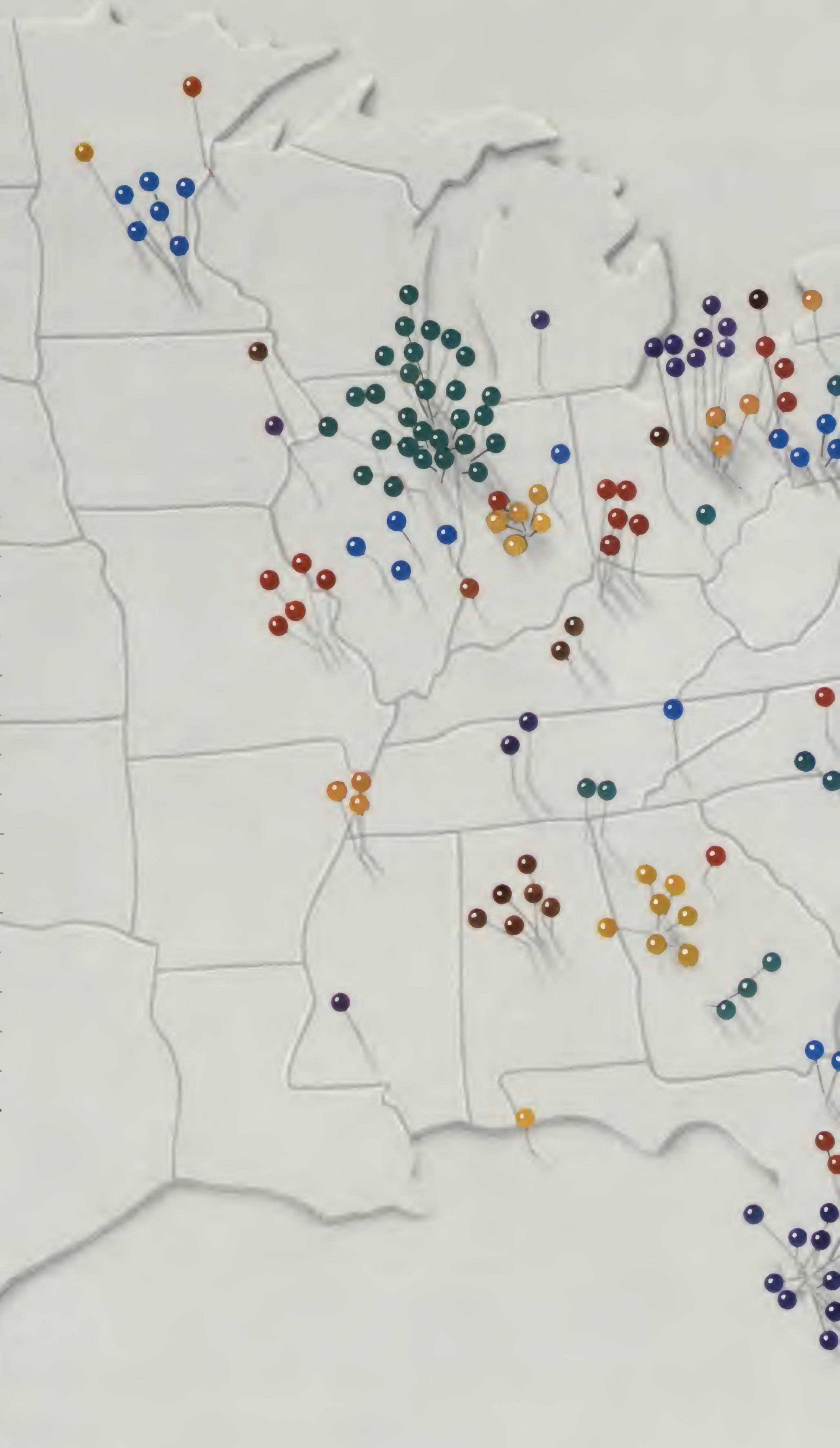
Respectfully submitted,

Sumner Feldberg
Sumner Feldberg
Chairman of the Board

Stanley H. Feldberg
Stanley H. Feldberg
President

Zayre by State

STATE	DISCOUNT DEPARTMENT STORE OPERATIONS
Alabama	6
Connecticut	6
Florida	37
Georgia	11
Illinois	27
Indiana	12
Iowa	1
Kentucky	3
Maine	10
Maryland	8
Massachusetts	34
Michigan	1
Minnesota	8
Mississippi	1
Missouri	5
New Hampshire	3
New York	3
North Carolina	11
Ohio	20
Pennsylvania	11
Rhode Island	10
South Carolina	1
Tennessee	8
Vermont	1
Virginia	11
Wisconsin	2
Total Stores	**251**



Zayre "Clusters"

	DISCOUNT DEPARTMENT STORE OPERATIONS
Chicago, Illinois	28
Boston, Massachusetts	18
Miami, Florida	14
Providence, Rhode Island	12
Tampa-St. Petersburg, Florida	12
Washington, D.C.	11
Cleveland, Ohio	8
Atlanta, Georgia	7
Western Massachusetts	7
Minneapolis-St. Paul, Minnesota	6
Pittsburgh, Pennsylvania	6
Orlando, Florida	6
Birmingham, Alabama	6
Indianapolis, Indiana	5
Cincinnati, Ohio	5
Charlotte-Kannapolis, N. C.	5
St. Louis, Missouri	5
Greensboro-High Point, N. C.	5
Hartford, Connecticut	4
Norfolk-Portsmouth, Virginia	4
Worcester, Massachusetts	4
Central Illinois	4
Scranton-Wilkes-Barre, Penn.	3
Youngstown, Ohio	3
Memphis, Tennessee	3
Akron-Canton, Ohio	3
Southeastern Massachusetts	3
Portland, Maine	3
Macon, Georgia	3
Nashville, Tennessee	2
Louisville, Kentucky	2
Jacksonville, Florida	2
Western Maryland	2
Chattanooga, Tennessee	2

financial and operating review

Company Profile. The major business of Zayre Corp. is the operation of a chain of self-service, convenience, general merchandise, discount department stores. While the typical Zayre store has 73,000 square feet, they range in size from 45,000 to 130,000 square feet. Virtually all are on one floor, with approximately 77% of the space devoted to selling area.

There are close to 100 different merchandise departments in each store ranging from apparel to non-apparel convenience items, and on to durable goods—serving most of the clothing, home, and recreational needs of the family. Sales of leased departments account for approximately 4% of total store volume.

Most Zayre stores are in suburban strip shopping centers, which have easy accessibility, generous shopping hours and ample free parking. Zayre is usually the major tenant in these centers, which generally also include at least a food supermarket and a drugstore. Some Zayre stores are free-standing; others are part of large, regional mall shopping centers.

Our 251 discount stores aggregate 18,780,000 square feet of gross area. 213 are clustered in 34 major metropolitan markets in the eastern half of the nation. The remainder are in 38 smaller communities. (See map on page 4.)

The population of these markets is some 50 million, or about 25% of the nation.

The Company maintains a network of six distribution centers with 2,100,000 square feet of space. About 59% of our merchandise goes through these centers; the balance flows directly from vendors to stores.

The first two Zayre stores opened in 1956 in Hyannis and Roslindale, Massachusetts. However, the origins of the firm trace back to 1919 and a hosiery jobbing business that subsequently developed into a chain of ladies' apparel specialty stores. Originally centered in New England, Zayre today derives approximately 34% of its revenues from the Northeast, 40% from the Midwest, and 26% from the Southeast.

Zayre also operates several specialty store chains (see page 9) which in the aggregate represents less than 10% of the Company's total sales.

Quarterly Results. Comparative quarterly sales and earnings were:

1973

Quarter	Sales	Earnings	Per Share
First	$ 216,616,000	$ 1,238,000	$ .25
Second	241,971,000	2,489,000	.50
Third	225,190,000	976,000	.19
Fourth	319,645,000	4,409,000	.90
	$1,003,422,000	$ 9,112,000	$1.84

1972

Quarter	Sales	Earnings	Per Share
First	$ 184,022,000	$ 1,046,000	$ .21
Second	220,103,000	2,042,000	.41
Third	225,561,000	2,417,000	.49
Fourth	310,024,000	5,045,000	1.04
	$ 939,710,000	$10,550,000	$2.15

Energy and Retailing. When the energy crisis first burst upon the scene this past fall, Zayre responded immediately by instituting a broad-based, 26-point program for energy conservation. This extensive effort embraces, among other things, a reduction in levels of lighting of 10% on the selling floors and at least 20% in office and non-selling areas, a radical reduction in exterior lighting and signs, and enforced lower temperature levels during the heating season and higher temperatures during the cooling season. Studies of usage show that we are achieving a major reduction in kilowatt-hours which, incidentally, helps to offset the rapidly rising cost of electricity.

While the acuteness of the situation appears to have subsided, there is no doubt that the problem will be with us for some time. It may be too early to pinpoint all of the long-term ramifications, but it is not too early to attempt to anticipate some of those developments in our business planning.

Clearly, energy is having a major inflationary influence on our economy. In turn, this places great pressure upon discretionary spending and will tend to make the consumer increasingly "price-conscious". Although inflation is a negative, we believe Zayre is somewhat better postured in this regard than most retailers, since we are discount retailers with a strong emphasis on "value".

Much has been written to the effect that our world is now entering a period of scarcities—not just of energy, but

certain basic commodities, including petroleum-based products. This is already evident in plastics, steel, paper, etc. We share the opinion of many that fears in this regard are somewhat exaggerated. Although we're bound to be facing short supply of certain products from time to time and prices may well go higher—over the long pull, the nation's productive capacity, as well as the development of substitutes in some cases, should avoid severe shortages of long duration. These circumstances will make the retailer's job of maintaining good in-stock positions on wanted merchandise more difficult. However, with strong vendor relationships, and knowledgeable buyers with reasonable flexibility as to their purchasing commitments covering every product line we carry, we believe we can meet this challenge.

The way in which consumers spend their funds is bound to change. This past winter saw a surge in the sale of warmth-related products such as sweaters, blankets, and insulated draperies. It would appear that there will be less emphasis on travel and automobiles. The accent will be on home life. This opens up great opportunities for home-related products—ranging from garden furniture and equipment to hardware, and from home entertainment TV and stereo to adult games and hobbycraft.

The most difficult area to forecast is the way in which shopping patterns may be altered. It is logical that consumers will seek to shop closer to their homes and to make fewer, but more important shopping trips. If this is to be the case, the Zayre format may well prove to be a real plus—functional stores—convenient locations close to the consumers we serve—big assortments and a wide diversity of departments all under one roof and located, for the most part, alongside of the food supermarket serving the same public—one-stop shopping.

Taxes. In 1973, state and federal income taxes amounted to $7,627,000, and represented 45.6% of pre-tax income, compared with 44.2% in the prior year. Since state income taxes have been growing in recent years, the presentation of pre-tax income in our income statement now reflects earnings before state, as well as federal, income taxes.

Most of the Company's 1973 capital investment program qualified for the 7% investment tax credit. This amounted to $1,250,000 (including $275,000 relating to our new computer), as compared with $1,400,000 in 1972. The investment tax credit has been consistently reported as a reduction of the current provision for federal income taxes. This year's investment tax credit will be substantially less than in 1973 because of the smaller number of new stores.

Taxes are of major consequence, both administratively and in dollar amount, in an operation as large as Zayre. In addition to income taxes, there are a myriad of other taxes paid to local municipalities and state and federal authorities. Entirely aside from sales taxes, our expenses include in excess of seventeen million dollars in real estate, personal property, payroll and miscellaneous taxes.

Inventories. Inventories came within our planned objectives, and totaled $191,518,000, an increase of 13.2% over last year. The ratio of sales to year-end inventory was 5.24, somewhat less than the 5.56 achieved in 1972, but greater than the 5.03 recorded in 1971.

Over the years, the major factor influencing our turnover has been the changing mix of the merchandise we sell. Whereas our business was once almost entirely apparel, today it has come to include a large proportion of slower-turning categories, such as hardware, shoes, and domestics.

Another factor is the increased emphasis on achieving a consistently high in-stock position on wanted basic merchandise. This is particularly important in today's competitive environment, since thousands of customers have come to rely on our stores for their frequently replenished general merchandise needs.

Our economy is now one where product shortages appear to be developing. This, of course, introduces a new influence, since our merchandising staff may well seek to extend its commitments in such instances.

Inventory management in a chain as large as Zayre is a major effort. It requires sound training of all personnel, the establishment of appropriate standards by department and by store, and the development of large-scale systems embracing both units and dollars.

Our unit controls track the movement of virtually every style we carry in each store and in each distribution center. Much of this information is computer-based, with input flowing from our cash register tapes.

At the same time, "open-to-buy" monitors the inventory dollars committed to each merchandise category.

Working Capital. Your Company has carefully and consistently provided in advance for its financial requirements through the growth of net worth and periodic additions of long-term debt. As to the latter, care has been exercised to see that maturities are properly staged which means there are no major payments in any one year. Current instalments of long-term debt are $9,324,000 including Zayre Leasing, and only $2,158,000 of the total pertains to general corporate debt.

Our wholly-owned leasing and realty subsidiaries have been designed in such a way as to preserve the parent company's general corporate debt capacity. Consistently following a policy of financing all capital additions through these subsidiaries has permitted us to utilize the bulk of the Company's working capital in its principal business, namely merchandising.

Our continued growth is planned in step with the development of an adequate working capital base. This important measure of corporate liquidity totals $126,974,000, up from $116,384,000 in 1972 and $100,088,000 in 1971. At year end the Company's current ratio was 2.14.

As a result of this planning, the Company enjoys adequate short-term unsecured bank lines to accommodate seasonal merchandise peaks which can be and are entirely cleared at year end. At the present time, our lines aggregate 71 million dollars with a group of eleven banks. Twenty-six million of that total is available for use by Zayre Credit Corporation.

The Leasing Subsidiaries. Zayre Leasing Corporation, a wholly-owned subsidiary, continues to service all of our fixture requirements for new stores and store remodelings, as well as equipment additions to our distribution centers. During 1973, a total of $12,516,000 in this type of term

financing was placed, and a total of $7,463,000 was retired through the normal operation of the leasing program.

The equipment promissory notes carry interest rates that fluctuate with the prime rate and are amortized over approximately the same term as those assets are depreciated.

The successful operation of this program in a consistent fashion over so many years has given us long and excellent relations with a whole series of major banks in our marketing areas in addition to the banks which provide our corporate credit lines. Our practice is to work closely with a major bank in each area in which we operate; all store accounts are generally concentrated in that bank which in turn finances the fixtures of that group of units.

The wholly-owned Zayre realty subsidiaries own 3 of our distribution centers and 18 properties with Zayre stores as the principal tenant of all but one. This program, which involves none of the parent company's working capital, was started some years ago to be applied selectively to those properties where we could achieve ownership, as well as lower rents than from a third-party landlord, and thereby retain for the Company the residual values inherent in the property. Although there is no precise way to evaluate those residuals without going through the process of elaborate appraisals, it is to be noted that $3,819,000 of the debt related to these properties has been amortized through payments that would otherwise have gone to outside parties.

Zayre Corp. maintains a 50% interest in a real estate company which has developed 24 shopping centers. Zayre is the principal tenant of all but one.

New Computer. Zayre continues to be a leader in computer applications in retailing. To keep pace with our progress and future plans, this past year we installed at our Framingham headquarters the newest of the large computers—an IBM System 370 Model 168. Transition from our prior main frame, a System 370 Model 155 which, incidentally, had been the first 370 installed commercially by IBM, was accomplished smoothly and successfully.

The computer and related equipment are housed in a new, specially designed Data Center which provides adequate space for efficient and protected operations.

Favorable terms for the use of this major capital investment were achieved by having the new computer purchased from IBM and leased to us by a third party. The increased efficiency of this installation has tripled our capacity and processing speed at a current cost only slightly higher than last year in total dollars and significantly lower per unit of output—thus setting the stage for reduced computer costs as a percentage of sales as we continue to grow.

Our headquarters Data Center is the hub of a network of smaller computers and desk-top terminals located at remote distribution centers and various offices throughout the Company for convenient, direct availability of computer services as required by such users as merchandise planners, accounts payable processors, budget analysts, and divisional personnel.

Within each store, punched paper tape produced at the point-of-sale accumulates data relative to each transaction as well as receipts and replenishment counts. This input is processed each day by our Data Center, with a large and increasing number of our stores being polled nightly by the main computer over the telephone lines so as to reduce the elapsed time between data capture and resultant action.

Credit Operations. Zayre stores provide customers with a variety of credit programs. All offer instalment time sales plans—financed by others—in connection with the purchase of appliances and other big-ticket items. All stores also offer revolving credit, either through bank credit card programs or through a Zayre custom card, financed by an outside firm in some markets and by the Company in others.

Although revolving credit is not as important in discounting as in traditional department store retailing, it is a growing factor. All forecasts point to increased use of credit in the years ahead. Certainly, the emergence and success of the national bank card plans in recent years bears witness to this trend.

Anticipating this, we started as far back as 1966, to manage our own receivables in a small number of stores. Our purpose was to gain experience and develop management in this new medium for our business.

During 1971, Zayre-owned credit operations were centralized at Framingham, thereby eliminating separate operations in Chicago and Atlanta. At the same time, a new computer program enabled us to handle our own accounting for receivables, thus displacing a purchased service. This substantially reduced the cost of handling accounts while improving the control over receivables. Credit service is provided through a nationwide telephone network which enables the frontline cashier to obtain a positive credit check and instantaneous clearance for every credit transaction she handles from central computer files.

Zayre Credit Corporation, a wholly-owned unconsolidated subsidiary, was organized in 1971, enabling the Company to finance customer receivables on an economical basis and defer payment of some of the related income taxes due to favorable tax treatment accorded such transactions.

Zayre-owned revolving credit is still a small part of our total operations, available at present in only 50 of our stores. We have developed the management and the systems to control the receivables in a satisfactory fashion and are using credit as a merchandising tool to help build profitable store volume. Thus, this year we contemplate a modest expansion of Zayre-owned revolving credit to approximately 20 additional stores.

At year end, customer receivables aggregated $19,493,000 up from $14,421,000 in the prior year. Zayre Credit Corporation has a total capitalization and subordinated debt of $3,150,000 and has available to it lines of credit from seven banks totalling 26 million dollars.

Gasoline Stations. There are now 94 Zayre stations in operation, all but 4 of which are located on the parking lots of our discount department stores.

During late 1972 we organized a joint venture, equally owned by the Company and Research Fuels, Incorporated of Houston, Texas, a firm with strong marketing and supply capabilities in this field. The joint venture, Remex, effective January 1, 1973, assumed the operation of all stations

except those (now seven in number) that are part of our Shoppers' City division in the Minneapolis-St. Paul area.

As a consequence of the gasoline shortage during 1973 our stations did not always have adequate supplies. On the other hand, margins on the sale of gasoline were more normal than in the two prior years which had been frequently punctuated by recurrent "price wars".

Our statements now reflect joint venture income, which amounted to approximately $800,000 during the most recent fiscal year, rather than the sales of those stations. In the prior fiscal year, the gasoline division's contribution to the Company's pre-tax income approximated $300,000.

Our prior year's volume includes about $17,500,000 relative to the sales of these stations during the eleven months of that fiscal period prior to the start of the joint venture. Had these sales been excluded from our volume in fiscal 1973 as they are in fiscal 1974, the Company's overall increase in sales for the year would have been 8.8% instead of 6.8%.

Specialty Store Operations. Our two ladies apparel specialty store operations—Hit or Miss and Bell/Nugent—have now been placed under common senior management direction. We are economizing by combining areas of common interest, such as real estate administration, physical distribution, accounting and systems. Each chain, however, retains its distinctive personality.

Hit or Miss, a high volume, promotional fashion group, continues to develop rapidly. Management depth has been added to keep pace with its growth. The chain, which had its beginning in the Boston area, has spread through New England and New Jersey and is now entering Pennsylvania, with openings in Philadelphia this year. Fourteen units were added in 1973, bringing the total to 46. Fifteen to twenty are planned for 1974.

Bell/Nugent apparel stores, under an imaginative management group which took charge in 1972, has developed plans for a new prototype store to be located in enclosed mall shopping centers and featuring better junior sportswear. At the same time, where possible, existing stores have been converted to the new format. We are closing or subleasing units where the new format is inapplicable. At year end, there were 49 Bell/Nugent stores; three new ones are planned for 1974. The new approach will be evaluated prior to further expansion.

Beaconway fabric shops recorded improved results. The problems of 1971 and 1972 in the fabric field, which stemmed from over-expansion in the number of outlets as well as a collapse in the price of double knits, appear to be largely behind us. Beaconway has developed into an important New England fabric operation, with a distinctive specialty shop character of its own, catering to the complete wants of those who sew. Forty-two units were in operation at year end and five will be opened in 1974.

Spree!, our six toy and leisure-time stores, benefited from the program put into effect in 1972 and 1973 by new management. Overhead was radically reduced, and the stores began carrying a broader assortment of sporting goods to complement their emphasis on toys. Although positive progress has been made, we do not plan to expand this group.

Management Developments. During the year, your Company broadened and strengthened its senior management structure.

Max Feldberg, a co-founder of our Company, has become Honorary Chairman of the Board. We are indeed fortunate to have the benefit of his continued participation and counsel.

Sumner Feldberg, formerly executive vice president, has succeeded him as Chairman of the Board of Directors.

Milton L. Levy, senior vice president—real estate, has been appointed chairman of the executive committee.

The leadership of our merchandising organization has been broadened. Burton S. Stern has been promoted to executive vice president—merchandising and Malcolm L. Sherman has been elected senior vice president and general merchandise manager. Mr. Sherman has held several major merchandising posts with the Company.

Joel Jacobson, director of sales/operations, retired in 1973 after a 31 year association with us. Mr. Jacobson's knowledge, experience and leadership contributed greatly to the development of Zayre.

Responsibility for this area of our business has been assumed by David Kaplan, executive vice president—sales/operations, and John F. McGowan, senior vice president—sales/operations. Both men have had extensive retail experience and have served the Company as regional managers.

Morton H. Friedman, president of Hit or Miss, has been promoted to senior vice president—apparel stores, with overall management responsibility for both the Hit or Miss and the Bell/Nugent chains.

In addition to the above, the following promotions and elections have been made by the Board of Directors since our last annual report:

To Vice President:
Robert Alger—*Regional Manager*
Lewis Ronald Bennett—*Regional Manager*
Gerald Davis—*Merchandising*
George Freeman—*Staff/Finance*
Richard Johnson—*Real Estate*
Irving Lief—*Merchandising*
Leonard S. Oppenheimer—*Regional Manager*
Melvin Roth—*Shoppers' City*
Herbert Zarkin—*Sales Promotion and Advertising*

To Assistant Vice President:
Joseph Denaro—*Credit*
Joseph Halper—*Regional Manager*
Timothy Hart—*Market Research*
Seymour Levine—*Shoppers' City*
C. A. Onofrietti—*Security*
Stanley Schlesinger—*Regional Manager*
Charles Self—*Controller*

To Assistant Treasurer:
Robert Shedd

To Assistant Secretary:
Dermot B. Moylan

ten-year summary

Fiscal Year Ended
Last Saturday in January
(Dollars in thousands except per share amounts)

	1974	1973
Operating Data:		
Net sales, excluding sales of leased departments	**$1,003,422**	$939,710
Income before income taxes	**$ 16,739**	$ 18,919
Net income	**$ 9,112**	$ 10,550
Average number of common shares outstanding	**4,881,658**	4,846,017
Net income per common share:		
Primary	**$1.84**	$2.15
Fully diluted	**$1.77**	$2.05
Stores in Operation:		
Self-service Department Stores	**251**	232
Apparel Specialty Shops	**49**	54
Fabric Shops	**42**	42
Gasoline Stations	**94**	85
Discount Food Supermarkets	**9**	9
Toy and Leisure-Time Stores	**6**	6
Promotional Ladies' Apparel Stores	**46**	33
Financial Position:		
Current assets	**$ 238,392**	$217,328
Current liabilities	**$ 111,418**	$100,944
Working capital	**$ 126,974**	$116,384
Current ratio	**2.14**	2.15
Shareholders' equity	**$ 108,706**	$ 99,539
Number of common shares outstanding at year end	**4,874,817**	4,853,717
Equity per common share	**$22.30**	$20.51

1972	1971	1970	1969	1968	1967	1966	1965
$801,101	$686,337	$602,542	$492,649	$416,924	$347,485	$280,246	$213,911
$ 19,519	$ 16,213	$ 17,772	$ 19,333	$ 15,683	$ 14,987	$ 12,028	$ 7,713
$ 10,017	$ 7,663	$ 8,652	$ 9,538	$ 8,474	$ 8,110	$ 6,656	$ 4,370
4,779,611	4,637,579	4,595,813	4,319,079	4,235,577	4,147,026	3,754,230	3,725,803
$2.06	$1.62	$1.85	$2.10	$1.88	$1.87	$1.69	$1.09
$1.95	$1.54	$1.78	$1.99	$1.78	$1.75	$1.49	$1.04
204	179	153	131	115	96	83	72
57	51	48	46	45	40	41	43
29	18	7	6	5	—	—	—
68	50	37	32	21	13	4	2
9	8	8	5	4	—	—	—
11	9	—	—	—	—	—	—
23	17	—	—	—	—	—	—
$198,266	$154,689	$136,183	$ 99,397	$ 80,665	$ 67,509	$ 54,446	$ 36,236
$ 98,178	$ 67,395	$ 55,833	$ 46,938	$ 38,002	$ 33,499	$ 25,418	$ 19,806
$100,088	$ 87,294	$ 80,350	$ 52,459	$ 42,663	$ 34,010	$ 29,028	$ 16,430
2.02	2.30	2.44	2.12	2.12	2.02	2.14	1.83
$ 88,234	$ 73,538	$ 65,516	$ 56,328	$ 46,739	$ 36,790	$ 23,747	$ 14,908
4,821,273	4,650,393	4,615,854	4,569,616	4,283,449	4,169,322	3,795,205	3,730,110
$17.98	$15.52	$13.93	$12.10	$10.09	$8.31	$5.85	$3.78


BIKES
37⁰⁰

Fashion

In merchandising, fashion is excitement, and exciting merchandise sells.

Fashion is expressed in infinite ways—through color, design, shape and material. And fashion is everywhere—not just in couturier dresses. This past year, in bicycles, it meant ten-speed gears; in television sets, a look of sculptured whiteness; and in hi-fi equipment, toggle switches and slide controls instead of dials.

Fashion takes an everyday product and transforms it into something unique—thereby stimulating consumer demand. Consider a product as prosaic as men's underwear. This year, stretch nylon with color-coordinated tops and bottoms became a new fashion look—and it helped raise overall sales of men's underwear by 10%.

Our objective is to provide fresh, fashion-right merchandise for our customers. This takes expert buyers who are supremely knowledgeable about their product lines and their suppliers.

It also takes a communication and replenishment network able to monitor and respond to evolving demand.

And it is materially aided by our six distribution centers, with over two million square feet of space. From these centers, carefully measured quantities of each style are channeled to those stores where demand continues; where demand has abated, the flow is shut off quickly.

Fashion moves swiftly, and we move swiftly with it.

Convenience

Suburban families find Zayre a place where they can readily replenish most of their general merchandise needs. Convenience is fundamental, and it is one of our greatest appeals.

We provide large assortments of popular-priced merchandise. For example, a typical sportswear department will display not just a hundred pair of slacks, but a thousand —and in a wide choice of styles.

We provide a diversity of departments—all under one roof. This lets you buy your scuba gear just a few feet from where you bought the skillet, which was just across the aisle from the camera film and the portable television set that you picked up as you were getting ready for summer vacation. Zayre offers one-stop shopping carried to its most convenient dimensions.

We are also convenient because we're close to our customers. Three-quarters of them live within five miles of our stores. They needn't travel far to reach us—a convenience especially appealing in these days of energy conservation.

Convenience also defines our store locations. Most units are on major thoroughfares in well-populated areas. Every store is easily accessible, and all have ample parking.

Also ample are our store hours: 10 a.m. to 10 p.m., six days a week; and on Sundays, from 12 to 6 in those markets where Sunday openings are the practice. Evening and weekend hours are important because many husbands and wives like to shop together, and Zayre is a convenient place for family shopping.

Shopping in a Zayre store is informal. People come to us relaxed, in leisure clothes. This is in contrast to the greater formality of the downtowns and major regional malls.


ZAYRE
WATCH BANDS


16
16


EVEREADY
BATTERIES
2 FOR 44¢
AND UP


REGULAR HOLD
EXTRA HOLD

Value

Inflationary pressures are making consumers search harder than ever for value. Because value has always been one of our fundamental appeals, we're in an excellent position to satisfy that search.

Our strength is in popular-priced merchandise for mass consumption. Our assortments reflect wanted articles of sound quality brought to the consumer at the lowest possible retail prices.

Our buying teams constantly scour their markets in search of attractive purchasing opportunities. Huge buying power enables them to program their commitments in advance, and to arrange for lower-cost, long production runs, creating values which we can pass along to our customers.

A case in point: men's double-knit pants were very popular in 1973. The most common price range was \$11 to \$15. Anticipating that demand, we contracted with our suppliers in advance for a huge quantity to retail at a tremendous value —\$6.99 each. And we ended up selling 900,000 pair at that price.

Another way we achieve value is by developing merchandise to our specifications. This is part of an on-going program that affects more and more merchandise and provides more unusual values for our customers. For example, in 1972, we sold 40,000 units of a modern dome lamp at \$3.88 each. Expecting even greater demand in 1973, we redesigned the product—with no loss in quality—so that it could retail for under \$3.00. And we sold 220,000.

We also deliver value by keeping store costs low. We build simple, functional structures with simple, functional interiors and use central checkouts. Most departments are self-service. We strive to maintain the discounter's edge of a low ratio of payroll to sales.

Since high volume is another key to value, we promote our most popular items heavily. Last year, we spent over \$26 million for newspaper, radio, and television advertising.

Finally, to insure that our customers receive full value, we maintain our own textile testing laboratory, and we stand behind all our products with liberal guaranty and return privileges.

We stress value because we know that our future depends on our customers' willingness to keep on being our customers, to keep coming back, month after month.

Fashion, convenience, value: having based our business on these three principles for many years, we believe that Zayre is well prepared to meet the challenges and the opportunities of the Seventies.

consolidated statements of income and retained earnings

Zayre Corp. and Consolidated Subsidiaries

	Fiscal Year Ended	
	January 26, 1974	January 27, 1973
	(In Thousands)	
Net sales, excluding sales of leased departments	**$1,003,422**	$ 939,710
Cost of sales, including buying and occupancy costs	**782,605**	739,027
Selling, general and administrative expenses (Note F)	**178,866**	159,906
Depreciation and amortization	**13,089**	12,438
Interest expense	**12,123**	9,420
	986,683	920,791
Income before income taxes	**16,739**	18,919
Provision for federal and state income taxes (Note G)	**7,627**	8,369
Net Income	**9,112**	10,550
Retained earnings at beginning of year	**78,874**	68,474
Dividends on Series B preferred stock	**(150)**	(150)
Retained earnings at end of year	**$ 87,836**	$ 78,874
Net income per common share		
Primary	**$1.84**	$2.15
Fully diluted	**$1.77**	$2.05

consolidated statements of additional paid-in capital

	Fiscal Year Ended	
	January 26, 1974	January 27, 1973
	(In Thousands)	
Balance at beginning of year	**$ 15,753**	$ 14,881
Excess over par value of common stock issued upon exercise of options (Note E)	**184**	727
Other		145
Balance at end of year	**$ 15,937**	$ 15,753

The accompanying notes are an integral part of the financial statements.

consolidated balance sheets

Zayre Corp. and Consolidated Subsidiaries

	January 26, 1974	January 27, 1973
	(In Thousands)	
ASSETS		
Current assets:		
Cash	**$ 36,589**	$ 31,771
Marketable securities, at cost approximating market		5,036
Accounts receivable	**6,360**	7,787
Merchandise inventories	**191,518**	169,121
Prepaid expenses	**3,925**	3,613
Total current assets	**238,392**	217,328
Equity in and receivables from Zayre Credit Corporation and fifty percent owned companies	**4,679**	4,584
Property, at cost:		
Land and buildings	**40,273**	39,959
Leasehold costs and improvements	**20,535**	17,773
Furniture, fixtures and equipment	**89,645**	80,952
	150,453	138,684
Less accumulated depreciation and amortization	**45,828**	38,150
	104,625	100,534
Other assets, including unamortized pre-opening costs	**4,100**	5,248
Goodwill	**4,880**	4,880
	$356,676	$332,574
LIABILITIES		
Current liabilities:		
Current instalments of long-term debt	**$ 9,324**	$ 10,047
Accounts payable	**70,563**	65,742
Accrued expenses and other current liabilities	**25,006**	20,029
Federal and state income taxes (including current portion of deferred taxes $2,700 and $1,900)	**6,525**	5,126
Total current liabilities	**111,418**	100,944
Long-term debt, exclusive of current instalments (Note A):		
General corporate debt	**45,523**	48,163
Equipment promissory notes	**50,674**	45,113
Real estate mortgages	**32,547**	33,310
Deferred income taxes	**7,808**	5,505
Commitments (Note B and C)		
SHAREHOLDERS' EQUITY (Notes A, D and E)		
Preferred stock, par value $1, authorized 1,000,000 shares, issued and outstanding 57,659 shares Series B cumulative convertible preferred stock	**58**	58
Common stock, par value $1, authorized 15,000,000 shares, issued and outstanding 4,874,817 and 4,853,717 shares	**4,875**	4,854
Additional paid-in capital	**15,937**	15,753
Retained earnings	**87,836**	78,874
	108,706	99,539
	$356,676	$332,574

The accompanying notes are an integral part of the financial statements.

consolidated statements of changes in financial position

Zayre Corp. and Consolidated Subsidiaries

	Fiscal Year Ended January 26, 1974	Fiscal Year Ended January 27, 1973
	(In Thousands)	
Source of Working Capital		
Net income	**$ 9,112**	$10,550
Charges to income not requiring working capital:		
Depreciation and amortization	**13,089**	12,438
Deferred income taxes, net of $800 and $500 applicable to instalment receivables	**2,303**	2,566
Other, net	**350**	
Funds provided from operations	**24,854**	25,554
Additional long-term borrowings	**12,132**	16,553
Property disposals at net book value	**326**	8,075
Common stock issued upon exercise of options	**205**	760
	$37,517	$50,942
Application of Working Capital		
Current instalments of long-term debt	**$ 9,324**	$10,047
Purchase of 5¾% convertible subordinated debentures	**703**	
Property additions	**15,311**	19,174
Advances (from) to Zayre Credit Corporation and fifty-percent owned companies	**(197)**	1,074
Goodwill		1,151
Dividends on Series B preferred stock	**150**	150
Other, net	**1,636**	3,050
	26,927	34,646
Increase in working capital	**10,590**	16,296
	$37,517	$50,942
Details of Working Capital Increase		
Increase (decrease) in current assets:		
Cash	**$ 4,818**	$10,857
Marketable securities	**(5,036)**	(3,414)
Accounts receivable	**(1,427)**	1,697
Merchandise inventories	**22,397**	9,840
Prepaid expenses	**312**	82
	21,064	19,062
Increase (decrease) in current liabilities:		
Current instalments of long-term debt	**(723)**	1,054
Accounts payable	**4,821**	522
Accrued expenses and other current liabilities	**4,977**	797
Federal and state income taxes	**1,399**	393
	10,474	2,766
Increase in working capital	**$10,590**	$16,296

The accompanying notes are an integral part of the financial statements.

combined balance sheets

The Leasing Subsidiaries of Zayre Corp.

(Included in the Consolidated Balance Sheets)

	January 26, 1974	January 27, 1973
	(In Thousands)	
ASSETS		
Cash and marketable securities	**$ 8,440**	$ 6,585
Accounts receivable and other assets	**1,262**	1,030
Property, at cost:		
Land and buildings	**40,273**	39,959
Furniture, fixtures, equipment and leasehold improvements	**97,161**	86,372
	137,434	126,331
Less accumulated depreciation and amortization	**41,070**	34,015
	96,364	92,316
	$106,066	$ 99,931
LIABILITIES		
Accounts payable and accrued expenses	**$ 2,506**	$ 3,148
Due to parent and operating subsidiaries	**556**	96
Long-term debt, including current instalments of $7,166 and $7,712 (Note A)	**90,387**	86,135
Deferred income taxes	**5,879**	4,187
	99,328	93,566
PARENT COMPANY'S EQUITY	**6,738**	6,365
	$106,066	$ 99,931

balance sheets

Zayre Credit Corporation

(A Wholly-owned Unconsolidated Subsidiary of Zayre Corp.)

	January 26, 1974	January 27, 1973
	(In Thousands)	
ASSETS		
Customer instalment receivables purchased from Zayre Corp. and operating subsidiaries, net of $1,559 and $865 withheld pending collection	**$ 17,934**	$ 13,556
Cash and other assets	**216**	264
	$ 18,150	$ 13,820
LIABILITIES		
Short-term notes payable to banks, interest at prime	**$ 15,000**	$ 10,500
Due to parent company (subordinated)	**723**	1,120
	15,723	11,620
PARENT COMPANY'S INVESTMENT		
Subordinated demand notes, interest at prime	**1,500**	1,500
Common stock	**500**	500
Retained earnings	**427**	200
	2,427	2,200
	$ 18,150	$ 13,820

The accompanying notes are an integral part of the financial statements.

notes to consolidated financial statements

SUMMARY OF ACCOUNTING POLICIES

Consolidation Policies. The financial statements of Zayre Corp. and Consolidated Subsidiaries include the financial statements of all the Company's wholly-owned operating and leasing subsidiaries but exclude the financial statements of Zayre Credit Corporation which is accounted for under the equity method in the accompanying consolidated financial statements (see page 21 for balance sheets).

Fifty percent owned companies consist of a real estate development company and Remex, a joint venture which operates the Company's gasoline stations. (For further information on Remex see page 8.) The investments in these companies are accounted for under the equity method.

Merchandise Inventories. Inventories are stated at the lower of cost or market, using the retail method.

Goodwill. Goodwill represents the excess of purchase price incurred over the costs assigned to identified assets of companies acquired prior to November 1, 1970 and is not being amortized.

Depreciation and Amortization. For financial reporting purposes, the Company provides for depreciation by the use of the straight-line method as follows: buildings—33 years; leasehold costs and improvements—shorter of the lease term or estimated useful life; and furniture, fixtures and equipment—5 to 10 years.

Pre-opening costs are charged to operations over the twelve-month period following the opening of a new store or facility.

Debt discount and related issue expenses are amortized over the lives of the related debt issues.

Retirement Plan. The Company has a noncontributory retirement plan covering substantially all full-time employees who have completed three years of service. Pension costs include current service costs and amortization of prior service costs over 30 years. The Company funds pension costs accrued.

Income Taxes. Deferred income taxes arise from income tax and financial reporting differences, principally with respect to customer instalment receivables and depreciation. The deferral related to the instalment receivables is classified with the current federal and state income tax liability. Investment credit is recognized as a reduction in the provision for federal income taxes in the year in which the related properties are placed in service. (For further information on income taxes see page 7.)

For federal income tax purposes, the Company and all eligible subsidiaries file a consolidated income tax return.

Net Income Per Common Share. Primary net income per common share is based upon the average number of common and common equivalent shares outstanding in each year, after provision for dividend requirements on the preferred stock. Fully diluted net income per common share assumes full conversion of all convertible securities and the exercise of all stock options and warrants during the periods in which they were outstanding and were dilutive.

NOTE A—LONG-TERM DEBT

At January 26, 1974, long-term debt, exclusive of current instalments, consisted of the following:

General corporate debt:	
Promissory notes, interest at 5.8% to 8%, maturing April 1, 1976 to January 31, 1984	$ 2,392,000
8% sinking fund debentures, maturing August 15, 1977 to August 15, 1996 (effective interest rate of 8.9% after the reduction of the unamortized debt discount of $2,912,000)	22,088,000
Subordinated notes, interest at 5.5% to 8% and at prime, maturing August 1, 1975 to January 15, 1979	2,093,000
5¾% convertible subordinated debentures, maturing December 15, 1979 to December 15, 1994, net of $1,050,000 held in treasury	18,950,000
	45,523,000
Equipment promissory notes, interest principally at ¼% above prime, maturing in fiscal years 1976 to 1980	50,674,000
Real estate mortgages, interest at 4½% to 10½%, maturing April 1, 1975 to January 1, 2001	32,547,000
	$128,744,000

The subordinated notes are subordinated to the promissory notes and the sinking fund debentures. The 5¾% convertible subordinated debentures are subordinated to all other general corporate debt and are convertible into common stock at $40 per share, for which the Company has reserved 500,000 shares of its common stock. The Company has also reserved 300,000 shares of common stock for warrants issued in connection with the sinking fund debentures, exercisable at $40 and expiring on August 31, 1976.

Under provisions of the agreements governing long-term debt, $34,000,000 of retained earnings was available for dividends at January 26, 1974.

While the parent company is not directly obligated with respect to the equipment promissory notes or real estate mortgages, it has guaranteed the leases which have been assigned as collateral for such debt. Real estate mortgages are collateralized by substantially all land and buildings.

NOTE B—COMMITMENTS

The Company is committed under long-term leases for the rental of real estate (stores, warehouses and office facilities) and equipment (principally computer and automotive). The real estate leases range from 5 to 36 years, have varying renewal options and in several leases, purchase options. In addition, the Company is generally required to pay insurance, real estate taxes, other operating expenses and in some cases rentals based on a percentage of sales. The equipment leases range from 3 to 11 years.

Some of the above leases meet the Securities & Exchange Commission's definition of financing leases since the non-cancelable lease period either (1) covers 75% or more of the economic life of the property or (2) has terms which assure the lessor a full recovery of the fair market value of the property at the inception of the lease, plus a reasonable return on his investment. Such "financing" leases are presented separately hereunder pursuant to this definition.

Total rental expense (net of sublease income which is immaterial) amounted to:

	1974	1973
"Financing" leases	$15,296,000	$12,076,000
Other leases	17,221,000	16,799,000
	$32,517,000	$28,875,000

At January 26, 1974, the minimum commitments under non-cancelable leases with a remaining term of greater than one year are presented below. These leases are primarily real estate leases and are presented net of subleases.

Fiscal Years	"Financing"	Other	Total
1975	$16,729,000	$15,777,000	$ 32,506,000
1976	16,603,000	15,416,000	32,019,000
1977	16,548,000	15,277,000	31,825,000
1978	16,487,000	15,148,000	31,635,000
1979	16,412,000	14,737,000	31,149,000
1980-1984	76,519,000	69,130,000	145,649,000
1985-1989	63,983,000	51,167,000	115,150,000
1990-1994	56,125,000	37,369,000	93,494,000
Thereafter	40,014,000	16,519,000	56,533,000

At January 26, 1974, the Company was committed for additional minimum annual rentals of approximately $600,000 for stores to be opened during fiscal 1975.

The estimated present values of "financing" leases which amount to $143,950,000 and $123,980,000 as of January 1974 and January 1973, respectively, were determined by discounting the net lease payments at interest rates estimated to be inherent in the terms of the lease. The interest rates used to compute present values ranged from 5.00% to 10.85% (weighted average rate of 8.56%).

If the above "financing" leases were capitalized and amortized on a straight-line basis over the initial term of the lease and interest was accrued on the outstanding lease liability, net income would have been reduced by approximately $1,450,000 and $1,200,000 in 1974 and 1973, respectively. This computation includes amortization of present values of $6,665,000 and $5,332,000 and interest of $11,486,000 and $8,985,000 in 1974 and 1973, respectively.

The above amortization is greater than the depreciation that would have been charged if the leased properties were owned because no amount has been allocated to land and the amortization is over the lease term rather than the longer economic life of the property which would be used for depreciation.

NOTE C—LITIGATION

A subsidiary of the Company has been named as defendant in a complaint by the Equal Employment Opportunity Commission alleging violations of Federal law with respect to employment practices and seeking injunctive relief and damages. These allegations have been denied. The case is in the pre-trial stages. Management believes that an adverse result, if any, in this litigation would not have a material effect.

NOTE D—PREFERRED STOCK

The Series B cumulative convertible preferred stock is entitled to a liquidation preference of $65 per share, or $3,748,000 in the aggregate, and is redeemable, subse-

quent to January 30, 1974, at the option of the Company at the same price. Each share is convertible into 1.5 shares of common stock and 86,488 shares of common stock have been reserved for the conversion privilege.

NOTE E—STOCK OPTIONS AND STOCK PURCHASE PLAN

Under its Stock Option Plans, the Company has granted certain officers and key employees options for the purchase of common stock within five years from the grant date at option prices of 100% of market price on the grant date, exercisable at various times during the four-year period beginning one year after the grant date.

Option activity during fiscal 1974 was as follows:

		Number of Common Shares Reserved for	
	Option Prices	Options Granted	Future Options
Outstanding at 1/27/73	\$25.63—\$38.67	174,820	166,544
Options granted	\$10.25	183,099	(183,099)
Cancellations	\$10.25—\$38.67	(155,291)	155,291
Outstanding at 1/26/74	\$10.25—\$38.67	202,628	138,736

Options granted during fiscal 1974 include options for 94,469 shares with an exercise price of \$10.25 (market price on grant date) which were issued in replacement of options for 125,950 shares with exercise prices ranging from \$25.63 to \$38.67 which were cancelled. The replacement options are exercisable during a three month period following the expiration date of the cancelled options.

Under its Executive Incentive Stock Purchase Plan, 7,870 shares of common stock were reserved at January 26, 1974 for sale at a price (not less than par value) determined by the Company, subject to repurchase options and restrictions on sales which lapse equally over five or ten years. In fiscal 1974, 21,100 shares (net) were sold for \$1.00 per share under the Plan. The excess of the market price of these shares over the purchase price is charged to income ratably over the period during which the restrictions lapse.

NOTE F—PENSION COSTS

Pension expense amounted to \$1,060,000 and \$861,000 in fiscal 1974 and 1973, respectively. The increase in expense was primarily due to an increase in eligible employees and a decrease in the market value of plan assets. There are no unfunded vested benefits.

NOTE G—INCOME TAXES

The provision for income taxes includes:

	1974	1973
Federal	\$5,900,000	\$6,700,000
State	1,727,000	1,669,000
	\$7,627,000	\$8,369,000

Investment credit used to reduce the federal income tax provision was \$1,250,000 and \$1,400,000 in 1974 and 1973, respectively.

Deferred income taxes amounted to \$3,103,000 and \$3,066,000 in 1974 and 1973 respectively.

accountants' report

COOPERS & LYBRAND

CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of Zayre Corp.:

We have examined the consolidated balance sheet of Zayre Corp. and Consolidated Subsidiaries as of January 26, 1974, the related consolidated statements of income and retained earnings, additional paid-in capital, and changes in financial position for the fiscal year then ended. We have also examined the combined balance sheet of the Leasing Subsidiaries of Zayre Corp. and the balance sheet of Zayre Credit Corporation, an unconsolidated subsidiary of Zayre Corp., as of January 26, 1974. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously examined and reported upon the above financial statements for the fiscal year ended January 27, 1973.

In our opinion, the aforementioned financial statements present fairly the financial position of Zayre Corp. and Consolidated Subsidiaries, the Leasing Subsidiaries of Zayre Corp. and Zayre Credit Corporation at January 26, 1974 and January 27, 1973 and the results of operations and changes in financial position of Zayre Corp. and Consolidated Subsidiaries for the fiscal years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Coopers + Lybrand

Boston, Massachusetts
March 26, 1974

directors and officers

Directors

*Max Feldberg	*Honorary Chairman*
*Sumner L. Feldberg	*Chairman*
*Stanley H. Feldberg	*President*
*Milton L. Levy	*Chairman Executive Committee, Senior Vice President*
*Burton S. Stern	*Executive Vice President*
†N. Preston Breed	*Consultant, State Street Boston Financial Corporation*
Albert M. Kronick	*Consultant*
†Newton A. Lane	*Partner, Nathanson & Rudofsky*
†Walter J. Salmon	*Professor of Marketing, Harvard Graduate School of Business Administration*
Robert F. Shapiro	*Executive Vice President, Wertheim & Co. Inc.*
†Vincent C. Ziegler	*Chairman of the Board, The Gillette Company*

*member of the Executive Committee
†member of the Audit Committee

Officers

Max Feldberg	*Honorary Chairman*
Sumner L. Feldberg	*Chairman of the Board and Treasurer*
Stanley H. Feldberg	*President*
David Kaplan	*Executive Vice President, Sales/Operations*
Burton S. Stern	*Executive Vice President, Merchandising*
Morton H. Friedman	*Senior Vice President, Apparel Stores*
Milton L. Levy	*Chairman Executive Committee, Senior Vice President, Real Estate*
John F. McGowan	*Senior Vice President, Sales/Operations*
Malcolm M. Sherman	*Senior Vice President, General Merchandise Manager*

Vice Presidents

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Anna Goldstein Levitman	*Merchandising*
Irving Lief	*Merchandising*
Theodore Schoenfeld	*Merchandising*
Karam Skaff	*Merchandising*
Gerald Davis	*Staff/Merchandising*
Robert Alger	*Regional Manager*
L. R. Bennett	*Regional Manager*
George Mover	*Regional Manager*
Leonard Oppenheimer	*Regional Manager*
Robert Bozeman	*Management Information Systems*
Robert Feinberg	*Beaconway*
George Freeman	*Staff/Finance*
Richard Johnson	*Real Estate*
Melvin Roth	*Shoppers City*
Warner Strauss	*Distribution Services*
Herbert Zarkin	*Advertising and Sales Promotion*

Assistant Vice Presidents

William Smith	*Merchandising*
Joseph Halper	*Regional Manager*
Rudy Hunter	*Regional Manager*
Stanley Schlesinger	*Regional Manager*
Joseph Denaro	*Credit*
Hershel Denker	*Business Planning*
David Goldman	*Hit or Miss*
Timothy Hart	*Market Research*
Ronald Hirshberg	*Apparel Stores*
Randolph L. Kruger	*Administrative Services*
Norman Lenox	*Disbursements*
Seymour Levine	*Shoppers City*
C. A. Onofrietti	*Security*
Charles Self	*Controller*
Robert Shedd	*Finance/Assistant Treasurer*
Lee A. Silver	*Personnel*

Secretary Newton A. Lane

Assistant Secretary Dermot B. Moylan

Transfer Agents—Common Stock
State Street Bank and Trust Company
Boston, Massachusetts
Irving Trust Company
New York, New York

Registrars—Common Stock
The First National Bank of Boston
Boston, Massachusetts
The Chase Manhattan Bank
New York, New York

Trustee—Convertible Subordinated Debentures
First National City Bank
New York, New York

Trustee—Sinking Fund Debentures
Bankers Trust Company
New York, New York

Listing
New York Stock Exchange
(Common Stock and Debentures)

Executive Offices
Framingham, Massachusetts

Auditors
Coopers & Lybrand

General Counsel
Nathanson & Rudofsky

Special Counsel
Ropes & Gray

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Zayre Corp., Framingham, Massachusetts 01701